Central Bank of Lesotho

STATEMENT OF THE MONETARY POLICY COMMITTEE

2 April 2024

1. On 2 April 2024, the Monetary Policy Committee (MPC) of the Central Bank of Lesotho convened its 106th meeting. The Committee deliberated on the latest global, regional, and domestic economic developments, as well as developments in the financial markets.

2. The Committee noted that global economic projections were updated in the January 2024 World Economic Outlook. The global economy is anticipated to grow by 3.1 per cent in 2024 and 3.2 per cent in 2025, primarily supported by stronger-than-expected growth in the United States in the second half of 2023 and robust growth from emerging markets and developing economies. Despite this resilient yet slow growth, downside risks include volatility in commodity prices amid geopolitical tensions and weather shocks, faltering growth in China, and disruptive fiscal consolidations.

3. Economic activity improved in most selected advanced and emerging market economies during the last quarter of 2023, supported by strong consumer and government spending, increased manufacturing activity, a rebound in tourism, and growth in mining and construction production. However, growth declined in the United Kingdom due to persistently higher inflation and interest rates, while Japan experienced a slowdown due to weak domestic demand.

4. In January 2024, unemployment rates increased in most of the selected economies due to weak economic growth. However, economies such as the euro area saw a lower unemployment rate, driven by increased demand for labour in sectors like services and construction, thanks to a rebound in activity in these sectors.

5. Inflationary developments were mixed in February 2024. Inflation rates rose in the US, Japan, China, and South Africa, mainly due to rising costs of energy, food, and shelter. Nonetheless, inflation rates fell in the UK, euro area, India, and Japan, primarily due to falling fuel prices, moderated by higher food prices. Consequently, most economies left policy rates unchanged, except Japan, which ended its negative interest rate policy.

6. Domestic economic activity contracted in January 2024, in contrast to an expansion in the preceding month, mainly due to weak domestic demand, coupled with declines in construction, transport, and financial services activity. However, improved activity on the supply side, especially in the manufacturing sector, moderated the fall. Growth is expected to pick up in the medium term, mainly underpinned by the construction sector.

7. Domestic headline inflation fell to 7.3 per cent in February 2024 from 8.2 per cent in the preceding month, reflecting a slowdown in the prices of food and non-alcoholic beverages, and alcoholic beverages and tobacco. However, the restaurant and hotels, and transport categories moderated the decline in inflation. The continued weaker exchange rate remains the major driver of a higher inflation rate. In the medium term, volatility in commodity prices as geopolitical tensions escalate and climate shocks are major risks to the inflation outlook.

8. Broad money supply declined in January 2024 after an expansion in the preceding month. The decline reflects the fall in net domestic assets, supported by the rise in government deposits with the CBL, despite the growth in net foreign assets moderating the fall and the rise in domestic private sector credit.

9. Government operations registered a surplus equivalent to 14.1 per cent of GDP in January 2024, mainly due to SACU receipts. During the same period, the stock of public debt as a per cent of GDP declined to 59.5 per cent.

10. The CBL's forecasts indicate a growth uptick in 2024, as the LHWP II reaches its peak over 2024-2025. The increasing construction activity is also expected to have positive spillovers to support services sector activity. Overall, growth is projected at 3.0 per cent in 2024, slowing to 1.1 per cent in 2026, as the LHWP II project winds down.

11. In summary, global growth is expected to pick up in 2024, but risks to the outlook linger in the medium term. Despite the contraction in January 2024, domestic economic activity is expected to improve in the medium term. The inflation rate declined, but climate shocks and a continued weaker exchange rate are expected to influence the inflation outlook.

12. Having considered the NIR (Net International Reserves) developments and outlook, the regional inflation and interest rates outlook, domestic economic conditions and the global economic outlook, the MPC decided to:

    i. ***Increase the NIR target to US$770 million from US$750 million. At this level, the NIR target will be sufficient to maintain a one-to-one exchange rate peg between Loti and the Rand.***

    ii. ***Maintain the CBL rate at 7.75 per cent per annum.***

13. The Committee will continue to closely monitor global economic developments and their impact on the domestic economy, especially the Net International Reserves and respond accordingly.

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GOVERNOR

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